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Third Quarter 2016 Earnings Conference Call

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CORPORATE PARTICIPANTS

Ghen Laraya – *Vice President, Business and Legal Affairs*

Bill Stone – *Chief Executive Officer*

Andrew Schleimer – *Executive Vice President and Chief Financial Officer*

PRESENTATION

Operator

Good afternoon and welcome to the Digital Turbine Third Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press star then one on your telephone keypad. To withdraw your question please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Ghen Laraya, Vice President of Business and Legal Affairs. Please go ahead.

Ghen Laraya

Thank you and welcome, everyone, to Digital Turbine's Fiscal 2016 Third Quarter Earnings Conference Call. I'm Ghen Laraya. With me today are Bill Stone, Digital Turbine's Chief Executive Officer and Andrew Schleimer, our Executive Vice President and Chief Financial Officer. Statements made on this call including those during the question and answer session may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements relate to expectations concerning matters that are not historical facts and include, for example, statements about guidance, expected revenue and profitability, product sales, market penetration, speed of customer adoption orders and overall business momentum. We caution investors that any forward-looking statements are based on beliefs and assumptions made by and information currently available to us. Such statements are based on assumptions and the actual outcome will be affected by known and unknown risks, trends and uncertainties and factors that are beyond our control or ability to predict.

Although we believe that our assumptions are reasonable, they are not guarantees of future performance and some will inevitably prove to be incorrect. As a result our actual future results may differ from our expectations and those differences may be material. Please refer to the Safe Harbor Statement included in today's press release as well as Digital Turbine's periodic filings with the SEC for a discussion of such risks and uncertainty. We are not undertaking any obligation to update any forward-looking statements.

In addition, we will be discussing certain non-GAAP financial results including non-GAAP adjusted EBITDA. Non-GAAP measures are not substitutes for GAAP measures. Please refer to the press release issued earlier today for important information about the limitations on using non-GAAP measures as well as reconciliations of these non-GAAP financial results to the most comparable GAAP measures. Please note that on March 6, 2015 Digital Turbine Inc., a Delaware corporation acquired Appia Inc. Digital Turbine's current year results are therefore not comparable to prior year results and this call will include sequential comparisons unless otherwise noted.

Now, it is my pleasure to turn the call over to Mr. Bill Stone.

Bill Stone

Thanks, Jen, and thanks to all for joining our call today. I wanted to focus on five things in my prepared remarks: First is to start with a review of both last quarter and an update on DT Media; Second is provide an update on Appia Corp; Third, an update on our content business; Fourth, an update on new and existing customers; Fifth, an update on the current quarter and finally close-out with some strategic views on our business and our positioning.

First on the fiscal third quarter, we finished with \$24.1 million in revenue or \$24.6 million, excluding one-time adjustment from a prior period that Andrew will describe in more detail. While Andrew will also present our revenue growth on a sequential basis it's important to note that the third quarter represents an impressive increase from last December of 244% on a reported basis and a 47% increase on a pro forma basis as if we had owned Appia for all of last year's third quarter. This performance reflects our strong execution during the critical holiday selling season, while also successfully executing our growth strategy, increasing DT Media's penetration across carrier partners at rising levels of productivity and growing our Appia Corp. business.

The DT Media business represented almost \$7 million this December quarter which compares to \$4.1 million, \$3.2 million and approximately \$1 million over the past three quarters. The DT Media business is now at approximately \$2.20 device yield, well in excess of our \$2.00 device guidance earlier in the year. As we have discussed before, this is the most important operational metric in our business to demonstrate the health and demand of what we are building.

It is important to note that monetizing the home screen of the device is a unique and differentiated asset. I think this is one aspect of Digital Turbine's identity and business model that goes underappreciated. There's only one home screen and our access to it is very strategic. Targeted campaigns now make up more than 40% of our total campaign count and targeted campaigns have advertising rates that tend to be approximately 40% higher compared to non-targeted campaigns. Doing this now at scale is something we continue to get better at and our ability to target more effectively is better for the consumer, the advertiser and the operators and OEMs responsible for the home screen.

You will see some press from us later this month about our Digital Turbine Advertiser Partners Program. This program is where we've established a new program where advertising agencies, such as WPP, Dentsu, M&C Saatchi, and so on, plus brands and application developers can have a one-stop solution to our global on-device inventory. Just as media agencies buy media on the Super Bowl, online, Facebook and so on, we envision the Advertising Partners Program being a complementary media channel to those that make it easy for companies wanting access to the home screen of any device at global scale. Look for us to add additional name brands, partners and agencies to the Advertising Partners Program over the upcoming weeks and months and becomes a major part of how we grow our revenues into next fiscal year.

Second, our Appia Corp. business finished at \$10.5 million in revenue, which is a quarterly record excluding a one-time event in 2013 and surpasses the September quarter of \$9.6 million. Continued strength from advertisers such as Pandora, contributed to this growth. We did see some softness in the Appia Corp. business in January as global brands and application provider's work on their 2016 spends.

A key for us in Appia Corp.'s continued success is expanding the percentage of distribution to real-time bidding, or RTB, for future margin expansion and revenue growth of the Appia Corp. business. We are now running RTB campaigns and while not a material driver of growth for this fiscal year, we do expect it to become a material driver into next fiscal year. We will come back with additional details on future calls about our progress.

And as noted last month, we have completed a transaction to license our RTB technology to Jud Bowman into his new venture Sift Media. As you know, Judd was Appia's founder and CEO and a former Digital Turbine board member. Andrew will provide some commentary on the financial details of the transaction, but I'm very excited to continue to work with Judd as a board member at Sift and helping him from a board perspective, build on top of our RTB technology to attack new market

segments and opportunities we are not focused on as the RTB space is enormous. For example, just here in the United States the RTB market is forecasted to grow from \$3.1 billion in 2013 to \$18.2 billion in 2018. We have an exclusive publisher agreement for one year in which Sift Media will source all advertising exclusively from Digital Turbine, which will also be an incremental revenue source for us.

And finally before I transition to the content business, I want to spend a moment on branding. As a result of our acquisitions we absorbed the brands of the companies we've acquired, including ZIO and Appia into our business. Bringing these brands together under one roof has created some customer confusion as to the differences between our products, channels, technologies and branding. Thus going forward we will be making changes to our branding to make it easier for our advertising partners and publishers to understand our solutions, structure and showcase the breadth and synergies of those solutions we're offering. Specifically, we'll be removing both the Appia and ZIO names from our branding and simply use Digital Turbine as the primary corporate brand in the marketplace. You will see these changes and some other product branding changes on our website and other marketing materials later this week.

After this call and going forward you will see us refer to our Appia Corp. business as our advertiser and publisher business or A&P. A&P will be included as part of our Digital Turbine Media business, which includes our operator and OEM, or O&O for short, business both which to combine to form our new Digital Turbine Media businesses offering customer-focused solutions. From an investor perspective we'll continue to break out the A&P and O&O business separately for transparency on how both businesses are performing.

Now onto the content business. We finished the December quarter at \$6.6 million in revenue. The decline in the September quarter is due to our strategic decision to not invest in the content business and rather focused on harvesting our app store business in Australia and invest in DT Media and Pay more broadly in Asia. In the Philippines we are launching our marketplace with the two mobile operators Smart and Globe. Smart will go live later this month and Globe is expected to launch in April. As part of our relationship with Electronic Arts we anticipate launching further branded EA Marketplace stores with additional operators in Southeast Asia.

To support our advertising partners globally, we are seeing demand for DT Pay in countries where credit card penetration is low and the use of Google Play is less prevalent. These partners need a way to be able to build customers for ongoing services. Our first new DT Pay country launches will be in the Philippines and India in March. The connections to both countries have been completed and we are in the process of onboarding the first services. The first revenue will be generated in March. We will be announcing further country launches in the first quarter of fiscal year 2017. And as we've stated before, we see this business synergistically working with our advertising business to help close the loop on delivering and monetizing applications after installation.

Fourth, I wanted to provide a few customer updates. We have now launched this month with Millicom in Latin America on our first devices. While it'll take some time to fully ramp Millicom, it is important to remember that this is a software licensing deal versus a revenue share agreement, which means it's at 100% gross margin.

For AT&T we expect to launch with Cricket on two existing devices beginning in March and begin with AT&T in the June quarter. As we've stated before, we're very excited about our long-term growth prospects with AT&T for a very broad launch across their entire new Android device portfolio, but do not yet have a specific date on exactly when installing Ignite on 100% of their devices will begin. AT&T will be launching our Wizard as part of their Ignite 2.0. This will allow customers to self-select the applications they want installed versus apps being silently installed on first boot.

For American Mobile we expect to launch on our first new device in the June quarter. However we do expect to be able to target a percentage of existing devices in the embedded base before the first device launches in a few months. American Mobile has changed how they preload their existing container app late last year. What this means is that existing customers may have the opportunity to receive applications via Ignite as opposed to only new customers on new devices. The ability to launch early with existing customers is a very positive sign of how American Mobile views both the opportunity and our relationship.

I'm very excited about our prospects in India for both Ignite and Pay. Although nothing specific to announce today, India's moving more than 200 million smartphones a year and we are engaged with many partners including rebooting our MSEI relationship. This is not something that will impact the March or June quarter, but we do expect to see India become a more material contributor to our topline growth in the second-half of next fiscal year.

We anticipate being live in five different countries for Deutsche Telekom over the next few months. This relationship's taken much longer to develop than we had anticipated, but we now have a much clearer line of sight to a ramp in revenues with Deutsche Telekom than at any other point in our relationship.

Up next is one of the trends we are seeing is how more devices are being sold as BYOD or bring your own device. Today over one billion Android smartphones per year get sold across nearly six hundred different OEMs. There is a tremendous opportunity to preload Ignite in IQ on many of these devices that are not sold directly by mobile operators.

We recently announced our first partnership with InfoSonics. You will see additional announcements in the coming weeks and months from others. While many of these deals may not be from companies with the same brand recognition as an AT&T, a Verizon or a Samsung they will be approximately 60% gross margin deals and a much faster time to launch with very little customization required. We will be launching IQ with T-Mobile USA on the Samsung S7 and will continue to preload it on additional Android devices. T-Mobile USA has yet to make a broader commercial decision on its prelaunch strategy so there's nothing to report today regarding Ignite and T-Mobile USA. We will also be launching our first Ignite device in Russia on MTS next month and expect additional devices this year.

So fifth, let's move on to discuss our fourth quarter outlook. Today we are reiterating and tightening our revenue guidance range for fiscal '16 to \$90 million to \$93 million and reiterating our objective of being adjusted EBITDA positive for the March quarter. The key areas of risk and opportunity being the launch and impact of the Samsung S7, any slot count movements with North American Operators, foreign exchange impact from Australia and the performance of Appia Corp.

We expect sequential revenue growth this quarter compared to last quarter despite the seasonality impacts of December. Although historically a soft month, we are off to a strong start in January, particularly in DT Media as we recorded CPI revenues attributed to devices sold over the holiday season plus another month of eight slots. We expect to see DT Media revenues between \$10 million to \$12 million for the March quarter or approximately 60% quarterly growth at the midpoint.

And lastly in the fourth quarter, as Andrew will discuss in more detail, achieving positive adjusted EBITDA will be a very important result of our significant effort over the several quarters to run our business efficiently as possible as we continue to grow revenues and gross margin dollars without increasing operating expenses. This is essential to our long-term success and adjusted EBITDA positive will be a major milestone for the company.

Looking ahead to the next fiscal year beginning in April, we expect the first quarter of fiscal 2017 to grow sequentially from the fourth quarter fiscal 2016 fourth quarter as we continue to drive our growth strategy. For DT Media, contributors to the first quarter revenue include a full quarter of the next update of Samsung's flagship device, the S7, a full quarter of Millicom, the ramps of Cricket and MTS and the introduction of AT&T and American Mobile. The main factors that would create uncertainty for that quarter are the timing and impact of the S7 and the exact contributions of American Mobile and AT&T. So while there's some revenues from the S7 may move either way between the fourth quarter and the first quarter depending upon the timing of the device launch and attribution we think we have good visibility into the launch's total impact across both quarters.

And finally before I turn it over to Andrew I want to say a few strategic words. While most of my commentary and all of Andrew's is very focused on specific operational and financial results, I want to make sure investors see both the forest and the trees. The forest is our strategies working, our businesses ramping and this is because of our thesis that number one application growth is enormous for end consumers. Number two, the ownership of the space on the home screen real estate is unique, valuable and represents beachfront property for the advertising world. And third, our operator and OEM partners and advertisers want to participate with us in this opportunity.

These three factors are things that position our company, both uniquely and perfectly. We are hyper-focused on the short-term ramp, the expectations, the short-term profitability to ensure we execute well to capture our enormous long-term growth opportunity. This enormous long-term growth opportunity leverages us having the largest operator and OEM partners in the world as partners and the largest advertisers and app developers as customers. There's a reason all these companies want to partner with us and we've won them because they see our proprietary software as the critical link in the chain between the device and the application or advertiser.

It's important to note that this is about building a platform business, not an ad-tech business, not a software as a service business, because platform businesses have much higher barriers to entry and thus can capture more value and are less likely to be commoditized. You will see some additional announcements from us this month on how we are expanding our platform to additional screens to include television as well as the internet of things. This is a natural extension for us. In the short-term our execution is critical to building our business, but I've never been more excited about our prospects and our competitive position in the industry.

With that let me turn it over to Andrew to take you through the numbers.

Andrew Schleimer

Thank you, Bill. I'll start with a review of our fiscal results for the third quarter and then offer some additional color on our full-year outlook and touch upon Q1 in '17. Please note that all comparisons I will discuss today are being made to the prior sequential quarter unless specifically noted. We believe that this is a better indicator of how our business is performing given the vast differences between our company today and at this time last year, namely as a result of the growth in our advertising business and the March 6, 2015 acquisition of Appia.

For those new to the Digital Turbine story, we have two segments for financial reporting purposes, advertising and content. With advertising comprised of Appia Corp. and DT Media which consists of DT Ignite and IQ. Content is comprised of Marketplace and Pay. These segments are the basis for our financial reporting as well as for my discussion today. Note however that going forward we intend to rename these reporting segments to be consistent with the branding initiatives that Bill previously described. With that said, let's begin.

On a GAAP basis revenue for the third quarter increased 16% to \$24.1 million as compared with \$20.7 million for the second quarter. Advertising revenue increased approximately 28% with DT Media and Appia Corp. revenue increasing 71% and 10% respectively. DT content revenue decreased approximately 6% stemming from the decline in DT Marketplace. Resource reallocation from the DT content business to our higher gross, higher margin media business adversely impacted content revenues in the quarter. The negative effect of the Aussie dollar exchange rate was minimal at approximately \$50,000.

As per the press release we issued earlier today, our results for the third quarter included a one-time net-adjustment of approximately \$500,000. This adjustment was a result primarily of a concession with one large advertising partner, net of other adjustments including the positive impact of the reversal of a sales allowance resulting from a change in estimate. Excluding the impact of this one-time adjustment, revenue for the quarter was \$24.6 million. Seventy-two percent of third quarter revenue was generated from our advertising business versus 66% in Q2, while 28% of third quarter revenue was generated from our content business as compared to 34% in Q2. This sequential change in mix underscores the continued adoption of DT Ignite as well as Appia Corp. revenue growth within our advertising business.

Advertising revenue in the quarter was \$17.5 million, an increase of 28% over Q2. Of this DT Media's, DT Media revenues were approximately \$7 million, up 71% from the second quarter. Growth in Ignite revenues once again shifted the mix towards DT Media resulting in DT Media contributing 40% of Q3 revenue and Appia Corp. contributing 60% compared to 30% and 70% respectively in Q2. This increase reflects continued penetration of DT Ignite across our US and international carrier and distribution partners at increasing levels of productivity and was achieved even as Appia Corp. reported a second consecutive quarter of record revenue.

DT Media was possibly, positively impacted by the seasonally strong holiday selling season with quarterly growth attributed to an increase in ad inventory units from four to eight in mid-November across US distribution partners, increasing overall device yield driven by better targeting and more effective campaign management as well as the aforementioned additional inventory and additional deployments across new distribution partners, including ClearTalk and 2Degrees, as well as the implementation of Phase I with American Mobile. All of this offset by lower than anticipated device volumes across US distribution partners, most notably evident in Samsung's earnings approximately one week ago. The Appia Corp. business delivered \$10.5 million of revenue in Q3, an increase of 10% versus Q2.

The December quarter was positively impacted by continued growth in Asia-Pacific and Amaya. As a result of positive campaign performance in recent months, Appia Corp. was also able to secure increased budget commitments from key advertisers that contributed to, contributed to growing revenues. As Bill noted, for the March quarter we expect Appia Corp. revenues to perform consistent with industry trends in the post-holiday seasonality period and we did see softness in the Appia Corp. business in January as global brands and application providers work on allocating their 2016 spend. The key priorities for the Appia Corp. business over the next two quarters will be to continue to scale distribution outside of the United States, which will drive incremental revenues and to continue to improve the data science and products that we'll that we believe will in turn create differentiated ad units in the marketplace that carry better gross margin. Expanding distribution to RTB is a core part of this strategy.

Content revenue in the quarter of \$6.6 million declined when compared to \$7.1 million in the second quarter. This decline was the result primarily of our decision to reallocate investment toward data science, our Ignite business and the content and Pay business in Southeast Asia and India. Further

exacerbating the decline in Q3 revenues were new DCB regulations in Australia resulting in a moderate slowdown of advertising spend by content partners while they adjusted their services and a decline in seasonal services that generally happen during the summer holiday period in Australia.

Non-GAAP adjusted gross profit and non-GAAP adjusted gross margin, which excludes the amortization of intangibles, but includes the variable portion of hosting fees, were \$5.5 million and 23% respectively for the third quarter compared to \$4.6 million and approximately 22% respectively for the second quarter. This sequential increase in gross margin of approximately 19% was primarily driven by the increasing contribution from higher margin DT Media revenue at approximately 40% in the quarter without the contribution of any professional services revenue, which carries higher margins. Additionally non-GAAP adjusted gross margin was adversely impacted by a high carrier partner concentration and the achievement during the quarter of an incentive threshold yielding a less favorable revenue share to the company.

Rounding out the advertising business, Appia Corp. margins were approximately 20%. Appia Corp. gross margin included a one-time adjustment related to the positive impact of the reversal of a sales allowance resulting from a change in estimate. Excluding this adjustment, gross margin was 19% versus 19% in Q2, a sustained margin improvement as compared to previous quarters, resulting from continued focus on a reduction in credits, namely those related to advertiser overspend. Within the content business, margins were approximately 12% for the quarter, down versus Q2, a result of lower absolute DT Marketplace revenues and a more meaningful mix shift to lower margin DT Pay revenues. GAAP gross profit was \$3.8 million or 16% gross margin for the third quarter versus \$77,000 or 0.4% gross margin for the second quarter. This sequential difference was primarily due to an increase in DT Media revenues as well as the \$2.4 million non-cash write-off of intangibles associated with amounts contributable to customer relationships from the September 2012 acquisition of Lovia which was taken in the second quarter.

Total operating expenses for the third quarter increased 10% to \$9.1 million compared with \$8.2 million for the second quarter. The second quarter included the positive impact related to the reversal of bonus accruals of approximately half a million dollars. Expenses were otherwise up modestly on targeted investments in research and development and operations headcount. Total operating expenses include non-cash items comprised of stock-based compensation and depreciation which decreased to \$1.5 million from \$1.6 million last quarter.

Net loss from continuing operations for the third quarter was \$5.8 million or \$0.09 per share based on \$66 million weighted average shares outstanding. Net loss from continuing operations for the second quarter was \$8.3 million or \$0.14 per share based on \$57.3 million weighted average shares outstanding. The increase in weighted average shares outstanding is attributable to our \$8.7 million common stock offering completed in October. Non-GAAP adjusted EBITDA loss for the third quarter was \$2.1 million and flat with \$2.1 million for the second quarter. Excluding the impact of the bonus accrual reversal in the second quarter, adjusted EBITDA improved 16% in Q3.

Now let's move to the balance sheet. Cash and cash equivalents as of December 31st were \$13.7 million. At quarter end, network and capital improved to \$487,000 from negative \$10 million at September 30th. The increase in cash and equivalents and improved networking capital profile is a result of the equity offering completed in early October and the cash received in the Sift transaction, which I will touch upon shortly. We worked to settle a portion of our past due payables and revenue shared with vendors and distribution partners over the course of the quarter as many of these trusted partners had previously worked with us to extend payment terms. While we still have some work to do here, we have made meaningful progress to date to get back to more normalized terms.

Total debt at quarter-end stood at \$10.6 million net of discount of which \$3.2 million is short-term and there were no new net borrowings under our credit facility at quarter-end. Included in short-term debt is \$3 million drawn under our receivable base revolver and \$150,000 of remaining term loan, which will be fully amortized with no amounts outstanding as of April the 1st. As previously disclosed in an effort to drive down our overall cost of capital, we have engaged with our senior lender, Silicon Valley Bank, to work to refinance our higher cash cost subordinated debt. While we have nothing formal to announce today, discussions with Silicon Bank, Silicon Valley Bank remain very productive and collaborative and we will be back to you when we have something more definitive to report.

Finally, as Bill touched upon, on December 28, 2015 we entered into a license agreement with Sift Media, a new-co headed by former director Judd Bowman, under which Sift licensed our real-time bidding technology in consideration for \$1 million of cash, a 9.9% investment in Sift in the form of convertible preferred stock as well as the appointment of Bill to a seat on Sift's board of directors. This strategic transaction served not only to bolster our balance sheet and increase our economic exposure to the robust RTB market, but provides us near-term revenue potential via our exclusive publisher agreement as well as additional insight and perspective into the many differentiated approaches to capitalize on this market opportunity as Bill previously alluded to. We look forward to working closely with Judd in his new venture.

Turning to our full-year outlook, we are narrowing our guidance range provided on our update call in mid-December. We expect fiscal '16 revenue to be in the range of \$90 million to \$93 million, approximately 60% growth versus pro forma fiscal '15 revenue of \$58 million. Driving our growth in Q4 to achieve this guidance range are our strong start in January, which is normally, which is a normally seasonally low volume quarter, with strong DT Media performance driven by CPI revenue attributable to holiday devices, continued productivity gains with eight slots striving yield per device higher than the \$2.00 we previously forecast, that we expect throughout the balance of the quarter, increased breadth and depth of targeted CPP campaigns leveraging distributor data sets, new carrier launches as we recently had launched with Millicom and are track, on track to launch Cricket, MTS and InfoSonics in March, the contribution from anticipated new material device launches and the stabilization of our content business with a revenue runway back at prior quarter levels of around \$7 million.

As per our press release and Bill's prior comments, we expect to be adjusted EBITDA positive for the fiscal fourth quarter. As we approach the achievement of positive adjusted EBITDA, we are looking ahead to the logical next steps for our company which is to generate free cash. Becoming self-funding is a key milestone in any rapidly growing enterprise and we will give more details on future calls about our path to this objective. As we look ahead, uses of free cash flow include investments in high ROI projects and small complementary bolt-on acquisitions and should end valuations be attractive, possibly the repurchase of our own common stock.

And finally in closing, as Bill briefly touched upon, we are comfortable and confident in our ability to achieve consistent sequential growth across our businesses. To that end, we expect to realize revenue growth in Q1 of '17 with sustained adjusted EBITDA profitability. To reiterate, Q1 growth over Q4 will primarily be driven by the continued ramp in our high-margin DT Media business through a number of known factors including the full quarter of the Samsung Galaxy S7, increased penetration across existing US carrier and OEM distribution partners, a full quarter of distributor partners launching in this fiscal Q4, namely Millicom, Cricket and MTS and a launch of our partnerships with AT&T and American Mobile. We have a lot to be excited about. The company is successfully moving along its planned trajectory and executing well towards its long-term growth objectives.

And with that our prepared remarks are concluded. Operator, would you please give instructions for Q&A?

QUESTIONS AND ANSWERS

Operator

Certainly, sir. We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. If your question has been addressed you may withdraw from the queue by pressing star then two.

And our first question will come from Mike Malouf of Craig-Hallum Capital Partners, Capital Group. Please go ahead.

Mike Malouf

Great, thanks for taking my questions, guys. Let's start with can you just talk a little bit more about on this American Mobile? It sounded like you were going to go basically into an existing client or existing customer base. That sounds pretty expansive and exciting, but you've never done that before so can you expand a little bit on that opportunity?

Bill Stone

Yes, sure. So, Mike, we have three ways that we deliver applications to consumers with Ignite. We've got our silent boot which is what we do with partners such as Verizon and US Cellular and Vodafone. We have our Wizard that we'll be doing with AT&T and others. And then we have Ignite as an SDK where we preload Ignite inside other applications. And in this third case is what we're doing with American Mobile and you'll see us do it with others as well into the future. And basically what that means is that American Mobile is preloading this existing app within some special permissions through Google's Android operating system. And what that will enable us to do is when they do a software update and we now include this Ignite SDK into that application, it'll have us, it will allow us the opportunity to push and recommend applications out to the existing customer base.

So American Mobile just recently started doing this so I'm not prepared today to give you guys any specific numbers around what the impact will be, but really what I wanted to make sure to emphasize for investors today on this is two things. Number one is that Ignite is not just about going out to new devices, there's opportunities, especially in emerging markets, to go out to existing devices. And number two, a company is large and substantial as American Mobile with 300 million plus subscribers, their commitment to doing this and changing how they're reloading this application in advance of us putting on new devices I think says a lot around their commitments and views and strategies on the relationship.

Mike Malouf

Okay, great. And then just a follow-up question, with regards to specifically Verizon, but just your existing account base now, what percentage do you think you're hitting as far as the number , as the percentage of Android phones now that have Ignite on them with Verizon? And then when you look out into this March quarter, your \$3 million to \$5 million incremental Ignite revenue is that going to come from existing clients or is it coming from some of these new clients? Thanks.

Bill Stone

Yes, so, Mike, I'm not going to comment on any specific partner numbers and what specific partners are doing, but what I will say is across all of our North American partners, which is numerous, I'd say right now we're probably in the, somewhere in the 70%+ range in terms of existing devices that we're hitting. When the S7 launches I would anticipate that would take a material step up for us. And one important point I think that is important for investors to understand is that last year when we launched

Ignite on the S6 we were not on the S5 and so therefore we missed that opportunity. As people are familiar whether it's with Samsung or Apple or any new handset provider, when those new models come out the existing models tend to get a bump. And so this year as the S7 launches we anticipate that should be a benefit to us because we're on the S6, as well so I would expect that overall percentage to increase just a bit.

And then in terms of the increase in Ignite revenues for this quarter, as we stated on our guidance call last December, we really haircut the impact of the new customers and haircut that, I believe, into six figure range versus seven figure range in terms of their impact for the March quarter. So now I think anything they do above and beyond that would be upside for us. So when we think about the incremental lift, we really see that coming from our existing partners and anything we get from some of the ones I referenced in my prepared remarks would be upside on top of that.

Mike Malouf

Great, thanks a lot.

Bill Stone

Thanks Mike.

Operator

The next question will come from Brian Alger of ROTH Capital Partners. Please go ahead.

Brian Alger

Good afternoon, guys. A lot to go over, a lot of information in here. I guess I'll start with just a real basic one. With this Sift Media investment there, sorry not investment but deal, if you will, how is that \$1 million cash payment being accounted for? Is that a royalty, is that a license fee, is that a one-time sale? How does that impact the P&L and is that already in the balance sheet for the December quarter?

Andrew Schleimer

Yes, so when we bought the Appia business we put some intangibles on the books associated with the acquired technology of approximately \$7 million. Inclusive of that \$7 million were amounts associated with RTB and other assets licensed to Sift. The overall transaction value was \$1 million of cash and 10% or roughly \$2 million at the time that we made our investment. And the accounting is to net the amount of those proceeds against the acquired intangibles first and in the event that there's any excess, which in this case there aren't or isn't, we would record other income below the line. So the transaction will result in the reduction of acquired intangibles which will have a positive amortization impact in the future quarters, but in no way will hit the P&L otherwise.

Brian Alger

Okay, and you guys did a deal on the 28th, did this already flow through the balance sheet that we're looking at?

Andrew Schleimer

That's correct, yes.

Brian Alger

Okay, great. And then as we look, as we look forward into next quarter, can you maybe give us a put and take and take as we think about the EBITDA break-even or EBITDA positive line? It sounds like most of content is going to be coming from Pay which I know there's a lower a margin as opposed to Marketplace, but we have some other movement obviously going on within DT Media. Can you maybe

give us a sense in terms of how the margins on an operating basis flow through with the pluses and minuses?

Andrew Schleimer

Yes, sure. So without getting too specific on numbers, the positives here will obviously be associated with a much higher percentage of the overall mix related to DT Media which carried roughly 40% margins in the quarter this past quarter without the contribution of any professional services, which as we know, we've said in the past are lumpy. As we look forward into this quarter, Millicom has already launched and we expect to have a positive gross profit or gross margin impact for the remainder of the quarter as will, as will the contribution of MTS, Cricket and DT Media revenues associated with the S7. So as we think about keeping costs in line at the \$7.2 million or \$7.3 million cash cost level that we've historically run at sans one-time items, we'll need to get at the midpoint of the implicit range of revenues for the remainder of the year north of roughly 25% of gross margins, 26% which are achievable based upon mix in order to obtain adjusted EBITDA profitability, which by our definition would exclude obviously depreciation, amortization and stock-based compensation.

Brian Alger

Right, okay so it seems like the incremental margin that we're going to see March quarter relative to the December quarter is pretty significant going from a slight EBITDA loss here, increasing the revenues in probably by the midpoint here. That's a pretty good incremental flow-through from incremental dollars to the business line. Is that unique to this quarter as a result of professional fees being lumpy and coming in with four new carriers or is that something that as we grow scale and gain revenues we see that sort of large coming through, more on an ongoing basis?

Andrew Schleimer

Yes, while we expect the impact the professional services in the quarter to be greater than zero versus Q3, we do not believe it will be a material contributor to the accretion to margin that we expect. And we expect that accretion to margin largely to come from an increase in mix to DT Media. As you've noted, while we expect to see growth on an absolute basis and relative basis in content, which carries lower margins and obviously the Appia Corp. business which carries about 19% margins that we saw this quarter. As we ramp up DT Media at the 40%+ range, it's going to be a mix issue which will impact Q4, but then we expect into Q1 and all of fiscal '17 to realize the scale of this business as we diversify away from large US distribution partners and some of the partners that we've discussed make up more material portion of the overall revenue mix for DT Media.

Brian Alger

Okay and one last one if I can, and maybe this is for Bill, how should we think about the linearity in the March quarter relative to the December quarter? Intuitively I would think December is very backend loaded with the attribution windows and the holidays and what not, whereas because of that same thing I would think we're frontend loaded here in March and ultimately what I'm getting at is at the point of the conference call here today, and looking at what the guidance for the quarter is, do we have a greater line of sight on that number than maybe we did for the December quarter when so much is up in the air with holidays and whatnot?

Bill Stone

Yeah, Brian, I think we do and I think there's one wild card in here I'll talk about, but yeah, I think as we look about the March quarter being sequentially up from the December quarter, there's really four things that are going to drive that. Number one is an increase slot count that we anticipate having for this quarter that we only had for half the quarter in December. Number two is the impact as a new customer is that you heard about in my prepared remarks there's obviously incremental revenue. Third is the attribution benefit that we get from the December device sales that flow into this quarter. And the

final one, which is the wild card, is what's the impact of the S7 going to be? Most people are speculating that the S7 will launch sometime around the second week of March, but see that's not something that we control. And what that impact is and what the attribution is in March versus April, that's where I think we've got a little bit of uncertainty, but that's not uncertainty in terms of what we believe the device will do across the life of the device, just only in the context of March 31st versus April 1st and what's going to flow into a particular quarter there. But to us in terms of visibility on the quarter, I'd say those are really the four drivers that we're focused on right now.

Brian Alger

Great, thanks, guys.

Operator

Our next question will come from Sumit Sinha of B. Riley. Please go ahead.

Sumit Sinha

Yes, thank you very much. Bill, I was hoping that you could shed some light on your targeting efforts as you work, work with the partners, specifically how are those efforts coming along and should we expect some sort of a step-up or should be gradual benefits that we see from these targeted campaigns? Secondly, you spoke about certain revenue share concessions given as you hit certain thresholds, is that with specific advertisers or carriers? I didn't quite get that if you can talk about that. And is that possible or should we expect something like this to happen on a regular basis as some of these customers or partners scale? And my last question relates to your RTB platform, do you have any results of some initial tests on how that scales, what are the benefits to overall volume or pricing or margins? That'll be helpful, thank you.

Bill Stone

Sure, yes so let me take your first question on targeting. And really for us on targeting, about 40% of our total campaigns are running. Now we don't have 40% of the total campaigns meaning they're hitting all customers range, 40% of our total. So if we've got hundreds of campaigns, 40% of those are being run with targeting data, because we don't have the targeting data necessarily for 100% of the customers. But what we're seeing right now is we're doing it at scale, so no longer are we trialing it on a device or trialing it with specific set of targets and a specific market. We're now doing this at scale.

And I mention in my remarks what I'm really excited about is this is something, especially as part of our Advertising Partners Program I referenced, advertisers or the ability for them to hit a specific segment of the population is netting out cost per placement or CPP rates that are 40% higher than when we're not targeting. So that's something that really highlights the importance of doing this and doing it at scale. We anticipate we're going to continue to expand that, because it's better for all stakeholders involved. So stay tuned for additional updates on that, but I would say at this phase, at this phase, we've graduated from trialing it to now doing it at scale and so the next step for us as it relates to targeting is going to be our ability to incorporate it across more operators globally.

Secondly on the red share question, yeah what we do is our goal is to maximize gross profit dollars and we want to incent our operator and OEM partners to put our Ignite software across their entire device lineup and so we'll incent them with increased revenue shares to do that. And as Andrew mentioned in his remarks, we'll cross over thresholds from time to time with certain partners and that's happened in this case this past quarter. While that could cause a short-term dip in the gross margin for that particular partner, on an aggregate basis, remember what we're talking about here are gross margins that can basically fluctuate anywhere from 30% to 70% so in all cases it's accretive to what we're already doing across our other businesses. But the goal here is to maximize total gross profit dollars.

And then your final question around RTB, really what RTB is our ability to arbitrage a buyers and sellers of media for app installs. And so today when we go out to a CNN International or a [indiscernible] or other publishers like that, we'll cut revenue share deals with them that are basically 80/20. And so we'll get that revenue and then we'll turn around and share it with that, with that publisher after the advertiser pays us. And it's pretty standard and pretty consistent terms of how it operates.

With RTB our ability now to go bid on the publishers and guarantee them a rate whether that's done on a click basis or some other means and guarantee that publisher money, and then predict how much app install revenue we'll get from the advertiser will allow us to accrete margins. So if we know, for example, we can go out and spend \$100 and guarantee media to a publisher and we know we can generate \$500, in app install revenue that would basically take your margin up to 80% and it would be a great example of margin accretion. And we're doing this today, we're doing it at somewhat limited scale right now and that's why I say, won't impact this current quarter, the June quarter. But as we go forward, just giving the massive growth in this space and the ability to arbitrage buyers and sellers of media and given our unique focus with the information on the device, I think that opens up a tremendous amount of opportunities for us to accrete our margins over the long-term by leveraging this data science and technology. So still early days, but something we're very excited about and something in terms of where the industry is going.

Sumit Sinha

One quick follow-up if I may. Can you talk about kind of the split of your campaigns between cost per install campaigns with this cost per based on other metrics like open rates and how's that trending? Which one would you specifically favor over the other? And I guess you can benefit this particular quarter from the attribution which was delayed from the previous quarter. Should we expect that sort of dynamic to continue from here on or was it you think it was sort of a one or two quarter event?

Bill Stone

Sure, yes, so right now in terms of mix of CPI versus CPP, what we see is when we're using targeting the vast majority of that is CPP and when we're using non-targeting the vast majority of that is CPI. And so since we're only targeting at 40% of the campaign the vast majority of the revenues today are still oriented toward CPI and that's actually okay. So if someone is willing to pay us, just to keep the math simple here, \$0.30 CPP rate, and we know that somebody's willing to pay us \$2.00 CPI rate and I can get a 20% open rate off a \$2.00 CPI that's a \$0.40 CPI which is better than a \$0.30 CPP. So it's net beneficial for us to have the CPI deal. So we'll continually do that math and calculus to see what's better, but what I'd say as a general rule is that the advertisers willing to take more risk when they know it's targeted and hence sign up for a CPP. If it's untargeted that's where we roll more into CPI campaigns.

Sumit Sinha

Thank you.

Operator

And once again if you would like to ask a question, please press star then one.

The next question will come from Jon Hickman of Ladenburg. Please go ahead.

Jon Hickman

Hi, guys, thanks for taking my questions. I just have two. Basically could you go through this revenue reversal, exactly can you give us a little more detail on what happened? Did you make some kind of estimate of what the revenues would be for the customer and then that didn't, that didn't happen so you had to refund some of their money?

Andrew Schleimer

There were two components to the reversal. So the one-time net adjustment that we took was comprised of a concession with a large advertiser where we had revenues recorded that we from prior periods and this existing period that we ended up reversing a portion of those in the quarter as a concession based upon their views on the way that we approached the distribution market from a publisher side and some of the publishers' tactics used to ultimately yield the installations. So based upon the size of the advertiser and the materiality of their contribution to our business today and on a go-forward basis we made a concession with that advertiser and hence took a reversal of revenue in this quarter. That was then offset by a change in estimate for sales allowance. We had reserved for sales allowance on our books based upon a prior convention where we were essentially over-reserving for credits and as we got better over time, we had realized that it was required to make a change in estimate which caused us to reverse out that reserve which had a positive impact, offsetting the negative impact from the reduction in revenue from the advertiser. So when you net those two against each other it was roughly half a million dollars in the period.

Jon Hickman

So did nothing, none of that's effected in the March quarter, right?

Andrew Schleimer

No, not at all. It's purely one time. One of the reasons why we actually proceeded this way was to ensure that we continued on good standing in terms with a large advertising partner for our business. This is absolutely behind us and that's on the revenue side and the sales [indiscernible] side, which netted against the revenue adjustment. This obviously was a one-time change in estimate for the way that we reserve for sales credits. So we had a change in convention that required us to reverse that which had a positive impact. So that again too is behind us.

Jon Hickman

Okay and you're still working with that large advertiser?

Andrew Schleimer

Absolutely.

Jon Hickman

Okay, my second question is about the Millicom relationship. You said, Bill said that's a licensing deal, how are you pricing that? Like an estimate of how many devices?

Bill Stone

Yes, so, Jon, so Jon, this is Bill. And what we do is similar to the strategize out and we're talking about with Sumit on the prior question is we provided incentives for our partners to put Ignite software on additional devices, but rather than doing it as a revenue share on advertising, Millicom is looking at this initially as something that's more of an operational opportunity, using Ignite for their business. So while we have some discussions in past [indiscernible] advertising and rev shares around that, what we've done is we've structured a deal that starts out with a licensing fee and then as they continue to add more and more devices we'll create incentives to take the licensing fee down over time as it goes across more devices consistent with the philosophy I shared before around maximizing gross profit dollars.

Jon Hickman

So right now they're trying to max, trying to get all the advertising dollars and just pay you a licensing fee?

Andrew Schleimer

Yeah, right now they're not actually doing advertising, they're using it for operational things for some of their own existing applications that they want to put on so it's not really Ignite is not really an advertising play for them at this current point in time. That could obviously change in the future and something that we both contemplated, but right now they're looking at Ignite as an opportunity to help them with the growth of smartphones across their footprint in terms of how they preload applications and manage the customer experience.

Jon Hickman

Okay, that's it for me. Thanks.

Bill Stone

Thanks, Jon.

Operator

The next question will be a follow-up from Brian Alger of ROTH Capital Partners. Please go ahead.

Brian Alger

Hi, guys. Following up on the comments earlier with regards to American Mobile and installing across their install base, just thinking it through a little bit, if we had the ability to push Ignite onto installed devices and I think he said utilize app recommendations, it seems like a logical extension that that's something we or you could do with other carriers especially given some of the integration that you talk about with Ignite 2.0 and start getting into more of a recurring revenue stream off of Ignite. Number one, am I interpreting that correctly? And number two is there, is there a resistance anywhere within the ecosystem to such a recurring revenue stream?

Bill Stone

No, so I think that what you see from us, Brian, as I mentioned, we kind of break it up into two sections here. So one is how do we get Ignite to the device and I mentioned before there's we can do it through silent, we can do it through Wizard and we could do it through SDK. So if I double click on the SDK, really what that is is software inside another operator application. So if that application is already preloaded in the proper place within the Android operating system, when we do push out Ignite as part of that update to that existing operator's app, that's what opens up additional opportunities for recommendations and other applications. And different partners want different views on how aggressive or not aggressive they want to be on that. So it is definitely something that we could do beyond American Mobile as we think about our Ignite 2.0 launch and selling the SDK as a different product from the silent product that we use, for example, with Verizon and US Cellular and Vodafone and others today.

So that would be one piece of it, but the larger question that you're asking around ongoing monetization. Absolutely, we can do that through all three methods. So there are things that we can do by things like Ignite recommends and notifications and a variety of other things that we've begun trialing with some partners right now. And I would expect to see us to continue to do that in 2017 with the kind of overarching strategy here of how do we move beyond a one and done out of the box and develop a much more ongoing consumer relationship? So that's something we're very much focused on as a business and without getting too much into the weeds here on the Q&A, there are multiple paths and ways for us to get there.

Brian Alger

Great and then just one last one if I can. I think you said that Deutsche Telekom is going to go to five countries, is that from three and if so what are the two new ones?

Bill Stone

Yeah, so right now, stay tuned on some of that, Brian, I want to be respectful of Deutsche Telekom, hasn't made any announcements of that so I want to be respectful of their individual country. So we'll follow back up on that, but I would say that there're five countries that we anticipate being live in in the next few months and that one of those is not Germany though, just to be clear for investors.

Brian Alger

Very well, thanks.

Operator

Our next question will be from Steven Massocca of Wedbush Equity Management. Please go ahead.

Steven Massocca

Hi, guys. So the last time you talked there was a technical, one of your partners had a technical snafu on Black Friday, as a result some revenues were lost, but could possibly be picked up in December. Do we now know the amount of those revenues that were lost due to that technical snafu?

Bill Stone

Yeah, sure, Steve. This is Bill. Let me first say that the technical issue's been addressed and it's not a technical issue on a go-forward basis. We've addressed, we've addressed that with the partner and have a very clear line of sight in terms of how the capacity will scale with that partner, who is doing the implementation of their data network and the downloading of the applications a bit different than other partners are globally. So first and foremost, the issue's been addressed. What we realized is that the total impact of this was about \$200,000 to \$300,000. A little bit of that, yes, we did recoup, but pending the user experience of how people power on their phones on Black Friday and then what happened if they opened them up underneath Christmas trees, but I would say the vast majority of it, we made a business decision with the partner to not push applications out after the customer already had their phone. Our view was that that's a poor customer experience and the customer experience trumps that short-term revenue gain. But going forward we don't see this as an issue in terms of what happened [indiscernible].

Steven Massocca

But, Bill, my point is the quarter would've been \$300,000 better had now, had that problem been fixed, had that had not happened.

Bill Stone

That's correct.

Steven Massocca

Thank you.

CONCLUSION**Operator**

And ladies and gentlemen, this will conclude our question and answer session. I would like to turn the conference back over to Bill Stone for his closing remarks.

Bill Stone

Yes, thank you all for joining our call and we will be back to you with updates on our progress and be on the lookout for upcoming news flow. And finally, we will be appearing at the ROTH Annual Conference in March and we look forward to seeing many of you there. Thanks again and have a great evening.

Operator

Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect your line.